

Chris Stansbury Fireside Chat at the Raymond James Annual Institutional Investors Conference

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Lumen Participants

Chris Stansbury - Chief Financial Officer

Conference Call Participants

Frank Louthan - Raymond James

Frank Louthan

Good morning. My name is Frank Louthan, I'm the Senior Wireline Analyst here at Raymond James. Thanks for coming to the 46th Annual Investor Conference here. I've only been to 24 of them, which makes me a dinosaur and I think we've had Lumen or some of their predecessors at almost all of them as well. So, really pleased to have Chris here today. And so Chris, why don't you start out, talk to us a little bit about Lumen, tell us about the company, where do you fit in the space and that sort of thing and to get started, and then we'll get into some questions.

Chris Stansbury

Sure. I've got a few slides we can go through, but you jumped on that microphone, I thought was it a ball game or something else. Now up, right? Okay. We won't go through the forward-looking statements, but you can read this at your pleasure.

Frank Louthan

Later.

Chris Stansbury

On our IR site as well as our non-GAAP measures. Really, what do we do, right? So, our history started really as two different businesses because there's been a lot of merger activity. One was an enterprise business providing connectivity solutions. It was the old Level 3 and other assets that came together. And then there was the CenturyLink side, which was really heavy on the consumer side.

But really, it's about long-haul network. It's about intra and intercity. It's about cloud, security, managed services. And ultimately, where we're going is far beyond connectivity. In today's world of multi-cloud and AI, connectivity is table stakes.

What changes things is the service layer that allows people to consume networking and more importantly, their data and compute more easily. And that's where we're headed.

So, we made great strides in 2024. We really strengthened the balance sheet and improved liquidity. There was a lot of debt work that was done earlier in the year and that really paved the way for us to sign \$8.5 billion in deals that are the biggest single expansion of the Internet really since its inception.

And that's driven by a partnership with Corning, but it's really relationships with hyperscalers and large social media companies to drive AI and fulfill their needs for training their AI models.

And then a lot of work internally on continuing to drive operational excellence because ultimately, our ability to deliver services quickly and efficiently and securely to customers is how we win as we go forward.

As we go forward in 2025, we continue with that operational excellence. By the end of this year, we'll be the first company in enterprise telecom to have one network. For companies today, no one consumes one network. They consume multiple networks from maybe one provider because those IT stacks have never been consolidated and that allows us to modernize and simplify and take a lot of cost out.

We'll continue to build the backbone of the AI economy. We think there's more opportunity there. But we also really start to pivot into the next phase of AI, which is inference, which is where large enterprise starts to consume these models more consistently and broadly, and that will drive a lot of things like IP and wave growth.

And then ultimately, we cloudify telecom and this is the game-changer. This is where no one else is focused. This really allows large enterprise to consume network like they consume cloud compute today that you can provision compute and storage online, you'll be able to do the same in terms of your networking needs.

And we'll be able to provide you cloud on-ramps, which allows large enterprise to dramatically reduce their access costs to their own data as well as to reduce latency, which is critical in an AI world.

A couple of slides that we showed on our Q4 earnings call. This one was important. I mean our underlying asset, it's boring PVC pipe. It was put in the ground 25 years ago, and a lot of that was never monetized because of the advances in fiber technology. And this is just an illustrative example. But as we did these deals, there was speculation that we had somehow mortgaged the future, and this puts that to bed.

The answer is we've increased capacity and utilization, and there's a lot more room to grow because of the number of fiber counts that we can pull through that conduit, given our relationship with Corning. And it gives us dramatic ability to expand the network footprint as we go forward. We're just finally monetizing that asset, and it's great.

And then this is the slide I talked about, just in terms of our ability to drive efficiency for large enterprise. Today, large enterprise pays a toll every time they access their own data because the only way they can get access to that data is to go through a third-party provider, pay a cross-connect fee. And as those data loads get pushed further and further away from the point of consumption, you've got real issues with latency, but you've also got -- you've got a lot of expense just to get access to the data. We're going to provide cloud on-ramps direct in the Internet -- direct in the network, so the network provides your access with reduced latency and reduced cost. And that's that. So a quick overview, but now we can jump in.

Question-and-Answer Session

Q - Frank Louthan

Great. All right. That's a very good overview, seeing all the different parts of the business and some things that have changed. So talk to us about the guide for the year? And what do you have to do to kind of hit the higher end of the guide? And how should we think about that? And then we'll talk about 2026.

Chris Stansbury

Yes. If I think about opportunities and risks in 2025, really the opportunities, I would say, surround more execution. So again, over 40% of our portfolio is in things that are growing, but the rest of it is still in things that are declining. It's still the majority of the portfolio. Those lines haven't crossed yet. And we're never going to change the trajectory of those legacy services as it relates to turning a decliner into a grower. That's not going to happen.

I do think, though, with execution, we can maybe change the slope of that line. We've never done a good job of things like renewals, and we brought in third-party services that are working, where we're able to target customers, where we're going to have the most success, and we're expanding that. So I think that's an opportunity.

The sales force is laser-focused on things like IP and wage growth, particularly 100 and 400 gig, which is where the market is rapidly shifting to. And I think executing there is an opportunity. On the risk side, it's really what happens to those legacy services just more broadly. So we'll continue to monitor, but we feel good about the guide.

Frank Louthan

Okay. And so with all those changes, I mean, one thing that's different is you gave guidance for EBITDA growth in 2026. So clearly, you're seeing some things change. But talk to us about what's changed that gives you confidence that you can go ahead and make that statement after all the work you've done in the last couple of years?

Chris Stansbury

Yes. Really, our focus in terms of the financial algorithm was first to stabilize free cash flow, which we did with the PCF deals, those \$8.5 billion of deals. The second was to inflect EBITDA, and that happens on an annualized basis in 2026. And it's really driven by two things. One is an improvement in the rate of decline as that mix continues to work in our favor in terms of the growers versus the decliners. But it's also the fact that we see a \$1 billion cost savings opportunity by the time we exit 2027, and that's going to really start to impact next year. So we guided 2026 at \$3.5 billion plus, and we feel very good about that. We're hopeful actually to call the point of inflection at some point later this year on a quarterly basis, but we'll know more when we get there.

Frank Louthan

All right. Great. And are those cost improvements more back-end weighted because that's when contracts end and things like that? Or what's..

Chris Stansbury

It's also just a lot of work that has to happen. It's really is collapsing these four networks into one, it's real estate, it's IT systems and the support around that. And so it just takes some time to get to it.

Frank Louthan

Okay. Great. So been a couple of news items out there that impacted AI. You may have heard of them as DeepSeek and Microsoft canceling data center contracts and so forth. To what extent do any of those concern you? And what have you heard from your customers about those items?

Chris Stansbury

Neither one of those really concerns us. The reality is if there is a faster, cheaper way to get to AI, where AI is more ubiquitous and consumed more broadly across large enterprise, that's really good for us, right? So we see a landscape where a greater adoption is only a good thing.

As it relates to data center cancellations, again, we're not super close to obviously what any one customer is doing in their portfolio. But we've seen other public announcements. Apple made some announcements. The investments that those companies are making in AI aren't getting smaller. I think this is a rebalancing play. And I think some of it may be related to things like Stargate, where clearly, the current administration is very focused on keeping as much AI in U.S. soil as possible.

So what we don't know is how much of that is an offset from a foreign investment per se. But we would expect there to continue to be rebalancing as we go through all of this. But so far, the discussions that we're having on the next phase of builds, which really focuses on new routes and new city pairings, not because we can't get there today, but because we want to reduce latency with a direct route.

So again, latency kills AI. I don't think these rebalancing efforts change the need to reduce latency. So, no major concerns at this point.

Frank Louthan

All right. Great. So we talked about fiber. There's different types of fiber assets. Let's talk about your fiber-to-the-home asset. You've been open about being willing to exit and monetize that business. Talk to us about your appetite for that and then what you think you could do and then uses of cash if that were to happen?

Chris Stansbury

Yes. So for years, we've said, look at, our right to win, the place where we are investing where no one else is, is really in the enterprise space. And that's where the strongest legacy assets sit, and that is going to be our focus.

We've also said that we've got this tremendous consumer asset, and we would invest in both. But ultimately, that that consumer asset was going to sit in the space where the market was going to consolidate. And at that point of consolidation, we were not going to be the consolidator.

We obviously all see that accelerating, right? Really since last summer, there's Lumos, Metronet, Verizon and Frontier, BCE and Zply, there's a lot of consolidation activity happening. And it's really happening because what we're starting to see play out is truly convergence between fiber-to-the-home and wireless. And the bundling of that by large strategic providers creates lower churn, more stickiness in pricing and the ability to, frankly, get fiber to more homes.

So it's definitely an asset that has garnered a great deal of interest. It's the largest asset that's out there today that hasn't been claimed. And so we'll see. I do think for us, the key things are, it would have to be delevering in a significant way, and we see a path to that. And it allows us not just at sale to delever, but it also allows us to stop spending \$800 million to \$1 billion a year in fiber-to-the-home builds that have a nine-year payback. So it materially impacts the free cash flow of the company. We would use the proceeds and the free cash flow improvements to delever. And so our ability to significantly delever, but also simplify our debt structure are significant, and you would see us do that. So we think that has huge benefits to both the credit markets, which have already, frankly, recognized the turnaround, but primarily more on the equity side, which hasn't really recognized the turnaround.

Frank Louthan

All right. Great. And so your public sector business did very well, had a really good exit for the year. Talk to us about your confidence in that business and especially for 2025. And any concerns about the trajectory of that business?

Chris Stansbury

Yeah. Longer term, we've got great confidence in that business. We play very well in that space. And again, back to the comments I made earlier about the current administration's focus on AI, but also on modernizing what is a very old telecommunications infrastructure. We see things in the news around the FAA looking at Starlink as an example of that.

Those things can have puts and takes. There may be old circuits that get turned off. But I think given where we sit in the investments that we're making, we're in a very good position as we go forward. The near-term, federal will be impacted negatively this year because -- and I was pretty outspoken on the last call. There's been some really bad industry behavior around rerates where we all buy network from each other and the big players have balance of trade, so there's good behavior.

The smaller players who maybe don't buy as much from us, but we have to buy from them to get to corners of the market have been pretty outlandish with some of their pricing and it's causing circuits to be forcibly disconnected. So that will negatively impact public sector this year. And that's in the forecast that we have.

But beyond that, I do think that just in terms of where we are with the current administration, there's opportunities on the tax side as well. So we, all-in-all, feel good about it, but there's going to be ups and downs as we move through all of that.

Frank Louthan

Okay. Great. Let's switch to the AI networking that you've been doing with the hyperscalers. Where are we on that underlying business, incremental \$8.5 billion or something like that, that you have there? Where are we on those deals? And where can we start to hear some incremental news about how those are going and where how the revenue is flowing and so forth?

Chris Stansbury

Yeah. So those deals are all in the existing network footprint, the existing conduit footprint. So our ability to deploy is fairly rapid. Now that said, it's going to take three years until you start to see services get lit. But we are on schedule, on budget. The team is doing a tremendous job of getting those networks rolled out, but it will take some time.

The next phase, the additional \$3.5 billion of opportunity that we've talked about are the new routes that I mentioned. And those conversations have progressed very nicely, but those are much more complicated builds, because it involves shovels in ground, new conduit. And so again, I feel good about where those conversations are. It's just a longer cycle.

In total, though, that's just the first phase of AI deployment. We think that the TAM for that is about \$15 billion. Others, I think, in the last couple of weeks, estimated at \$14 billion. We've already got \$8.5 billion of that. And again, I think we think there's an opportunity for another \$3 billion, \$3.5 billion there. So we feel good about that.

Really, the next phase, though, which is going to be largely driven by things like IP and waves and our on-ramps to the public cloud, that's where large enterprise starts to consume it. So, I think Phase 1 is -- we're pretty much nearing the end of that and then we start to pivot.

Frank Louthan

So, what are the free cash flow characteristics of some of these future opportunities here versus the Phase 1, which was largely around leasing the duct work that you have, which you had a great asset for? But think about the others that where you're putting shovels in the ground and so forth is more complex. Talk to us about the free cash flow differences in those two types of projects?

Chris Stansbury

Yes. It's -- so first of all, the benefit of those first deals was the existing conduit and that was a bet that was made 25 years ago. And so our ability to monetize that was fantastic.

As we go forward, we're not speculating on route builds. We're not going to go do what Level 3 did 25 years ago. So, we're having multiple conversations with multiple customers around what routes are important.

And the first step is you obviously want to get an anchor tenant, which allows you to justify that route and then you'll try to get additional tenants in there. And then ultimately, we'll pull some additional conduit, not 12 that would support future growth around IP and waves.

But when you look at the entirety of the return around that, it actually looks a lot like what we've already done. Obviously, the build costs will be higher. But when we look at kind of margin profiles and whatnot, it looks a lot like the \$8.5 billion deals that we've signed.

Frank Louthan

Yes. Okay. So, talk to us about the enterprise business. What can we do to grow that over the next 12 months? And when can we see overall top line growth for Lumen? What's the trajectory?

Chris Stansbury

So, overall top line growth in enterprise, we're already seeing some improvements, frankly, in the consumer side, right, as we enable more consumer fiber and we get subscription growth going. So, that's been a positive.

On the enterprise side, we see that inflecting in late 2028, early 2029. But that's without any kind of J-curve explosive growth around services like cloud on-ramps. And there will be other services that we announce over the course of this year.

The reason that we're not calling that is we just don't know how explosive that growth will be, but we believe it will look a lot like cloud adoption, right? It was slow at first and then it just took off.

So, trying to predict in time where that happens is next to impossible. So we're not counting on that, and that's why we say 2028 or 2029. But to the extent that those get adopted faster, we could pull that forward.

So, as I said earlier, I do think that in 2026, you'll see the rate of decline improve in a meaningful way and with continued improvement thereafter. And so I think the market will see the fact that because of the mix, because of the things that we're selling that no one else is, that those lines will cross in terms of the legacy and the new and ultimately, we're getting to growth. So, we feel very good about that.

Frank Louthan

So, what should we see cross -- first, if we're looking out there, what lines of business are going to be the first ones to hit that positive top line trajectory?

Chris Stansbury

So, the biggest thing you'll see, and you'll hear us talk about it, we talked about it a lot last year, will be things like IP and waves. I mean there is explosive growth in 100 and 400 gig waves. We announced our partnership with Ciena to power a lot of that. So, that fiber will be scalable to 800 gig and 1.6 terabyte.

That's where the investment is going. We're seeing really 10-gig wave sales starting to flatten. I think we'll see that going to decline pretty soon because it's just not where the market is. So, that's probably the single biggest leading indicator of large enterprise starting to position themselves for AI.

Frank Louthan

So talk to us a little bit more about that Wavelength business. I mean what -- relative to, say, a year or two ago, can you -- how much has that business grown? And you say it's enterprise that are buying the Wave's. Is it traditional enterprise? Or are these the AI type hyperscalers? Or who is the marginal customer that's really...

Chris Stansbury

It really is traditional enterprise. So we're seeing mainstay, retail operators shift from 10 to 100 and 400, as they position themselves for the future. It's not...

Frank Louthan

Are they also shifting away from buying Dark Fiber for themselves or other circuits? Or what's different about Wavelengths?

Chris Stansbury

It's not really Dark Fiber. I do think there's the possibility for a Dark Fiber large enterprise play, but it's going to be very specific. Think about high transaction volume, low latency financial services. That could be a possibility. But I think most of it really is going to be more on the Wave side. And so it's largely driven by just kind of, if you will, regular large enterprise. Our total Wave's business is growing at market, which is mid-single digits. But we announced last year that our 100, 400 gig waves were growing at 50% year-over-year. So that's really where the market growth is being driven from.

Frank Louthan

Okay. Great. So if we step back and put all this together, looking out three to five years from today, how different does your business look? And are there any other areas that are suddenly going to show up as being really big parts of your business that are not so much today?

Chris Stansbury

So three to five years from now, we would say that we'll be growing revenue. We will see a bigger portion of the portfolio sitting in those growth items. That's what gets us there. We will still have a very long tail of legacy revenue declines that ultimately weighs down total growth, but is very beneficial from a cash flow standpoint. And I think we'll be seeing it in things like IP, Wave, security, edge compute because, again, we've got an edge compute environment that's built. And with cloud on-ramps, enterprises ability to pull their data from multiple cloud environments to an edge compute environment to do their development and then push the data back, On-Demand is where we really see explosive growth.

And so the on-ramp to that, the leading indicator that we're sharing today is really NaaS, Network as-a-Service adoption, how many customers are buying it and using it. We give those numbers every quarter. That's really less about how much revenue we make from NaaS. It's really more about that's the gateway to consuming all things digital in our ecosystem, and we're seeing that grow every quarter as well. So that's ultimately what takes us there.

Frank Louthan

All right. One or two more questions. We'll grab some from the audience. So a year ago, you were in the throes of getting your balance sheet kind of restructured and your debt and so forth went through a herculean effort to get that done. Talk to us about the balance sheet and how we should think about that for the next couple of years, sources and uses of cash.

Chris Stansbury

Yes. We're really excited about where we are with the balance sheet. We've cleared away pretty much most of the way through 2028. We do have some big maturities in 2029 and 2030. But our ability to refinance today on a number of those pieces exists, and you'll see us do some things in the market, which ultimately put us in a better place.

We're on positive credit watch. So we are hopeful that we'll see some good movement on -- okay. So it's now public. S&P has upgraded us. But the others have us on positive credit watch as well. And so we think that will obviously just feed more of that capital markets activity. And then to the extent, if there is consolidation in a consumer sale, it allows us to meaningfully delever and meaningfully simplify our capital structure over the next two to three years. So we've got playbooks under either scenario. But under either scenario, we just get to much more of a normal way financing, a normal maturity curve and a dramatically simplified credit structure, which I think only helps the equity in a number of ways.

So we think that, that will unlock recognition of the transformation that we're doing on the equity side as well. So we're really excited about it.

Frank Louthan

Right. Like the real news flow there, it's always helpful.

Chris Stansbury

Yes.

Frank Louthan

So think about capital allocation priorities for the next 12 months, organic reinvestment, deleveraging, other uses of capital. How do you rank those? What are your thoughts?

Chris Stansbury

So, obviously, the first and foremost is making sure that we're continuing to invest in the transformation. We've got a large capital budget this year, because of the PCF deals, because of the ongoing investment in the business and the transformation. We've got a lot of capital going in and around on the consumer side.

Beyond that, there's the investments on the modernization and simplification, which ultimately unlocks that \$1 billion of cost. So that's going to be a big piece. And to the extent that we have excess cash after that, we will delever. Really, since the PCF deals, we've taken out \$1.8 billion in debt, and we've been able to push out some maturities, but that's where you'll see us focus.

Frank Louthan

All right. Great. Anybody in the audience have a question? All right. Great. So, all right. Let's -- going back to the AI builds and so forth. This is a herculean effort that we haven't really seen since the really early days of my career when all these networks and all of your predecessor companies that I covered were built that we saw building around the country. But these are incredibly complex projects. You've got to outsource this to a lot of folks. What are your thoughts on -- how do you mitigate some of that risk from the construction to make sure it gets done on time. And these are very demanding customers you have that want this stuff built yesterday. How should we think about any concerns about delays or so for that's those kind of projects?

Chris Stansbury

Yes. It's an incredible effort and the team that we've assembled is just world-class. We were considered best-in-class at doing this before we brought on the team we brought in. Part of the EBITDA guide this year is actually -- some of it I talked about is those disconnects, but some of it is just the annualized run rate of that team that we've got in there.

We were really fortunate because we don't -- we're approaching our relationships with the construction companies really as partners, right? This is not an outsourced provider. We've got three. We break it into kind of West, Central East. A couple of them, DICOM and MasTec have talked about us in their earnings. And they have come back to us. We actually shared this with the Board and said that the relationship they have with us is unlike anything they have with anybody else. It's not about blame if something goes wrong, it's about rapid escalation, quick resolution of any issues that come up. And so we're on schedule, we're on budget.

Safety is of paramount importance to us and so far, so good on that front. So we feel really good about where we are. Of all the things in the world that I have the potential to lose sleep over, I actually don't lose a lot of sleep over that. This is something that when you sit with the team and you see the work they're doing and the weekly report outs on what got billed and are we on schedule, it's just fantastic.

Frank Louthan

All right. You have question? No. Okay. All right. So maybe kind of to wrap up, Chris, it's been a long history with the company. You guys have done, made a lot of changes in the last couple of years. What are still one or two of the biggest misperceptions about Lumen that are out there with investors today? And what would you say to address those misperceptions?

Chris Stansbury

I would say a couple. The first is that the enterprise space is not a space that has to lose, right? So this is an industry, a segment of an industry and a company, frankly, whose culture for years was playing to not lose. I never ever, ever talk to a customer once they're on a legacy service, because they might wake up and turn it off. That is the complete opposite of the way we're approaching it today. It's very data driven. We know customers are screaming for the newest thing.

Connectivity, which is really what got the industry into that problem, because it's a declining price per bit every year, that's table stakes. You've got to have connectivity, but it's about the service layer, the easy consumability, the cloud on-ramps, the ability to light up port-to-port connectivity anytime, anywhere. That's where we are. That's where we're going. And it's about playing to win and bringing services that matter to CIOs rather than just dumb pipes in the ground. So this is a different company. It's a different culture. We're focused on winning, and you're starting to see that play out in the market. We're really excited about it.

Frank Louthan

So what does a customer say when you walk in that you never had before? I understand the fear of don't tell them, they're still paying for this. But what do they say when you walk in and say, you shouldn't pay for this, but we have all these other things. How does that go?

Frank Louthan

So we've actually got data that allows us to segment customer groups. So we know where that's going to be more successful, least successful. So we're focusing the resources in the right place. And the reality is we've got a much lower churn rate and a much higher adoption of newer services where we're engaging with those more successful customer cohorts. And it changes everything, because now you're -- I would much rather cannibalize ourselves all day, every day on legacy services, knowing that we've got customers attached to newer services. And as they enter the Lumen ecosystem, they're just going to add more and more to that.

So that's what's starting to happen. We've got a long way to go. If Kate were here, she'd say we did a great job of getting the base camp, now we got to climb to the summit. And I think that's a really good way to summarize where we are, but how we think about it. So we're happy with where we are. We've got a lot of hard work to do, and we're not going to slow down.

Frank Louthan

All right, Chris. Appreciate it. Exciting time with the company. We've got a breakout session after this if anybody wants to continue the conversation. Thank you very much.

Chris Stansbury

Thanks, Frank.